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Preparatory process for the Conference

Asian Development Bank Activities in the Least Developed Countries

Contribution by the Asian Development Bank */

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ASIAN DEVELOPMENT BANK ACTIVITIES IN THE LEAST DEVELOPED COUNTRIES

The membership of the Asian Development Bank (AsDB) includes 10 least developed countries (LDCs). These are Afghanistan, Bangladesh, Bhutan, Kiribati, Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Vanuatu and Western Samoa. In terms of its Charter, AsDB is enjoined to have special regard for the needs of the smaller and less-developed of its developing country members. AsDB has been endeavoring to give effect to this mandate and this paper briefly reviews AsDB assistance to its LDC members during the 1980s.

Terms of Lending to LDCs

AsDB lending to LDCs is exclusively from the concessional Asian Development Fund (AsDF). Loans to LDCs from AsDF are interest-free and carry a maturity of 40 years (inclusive of a grace period of 10 years) and a service charge of one per cent per annum. Project loans from AsDF normally finance up to 80 per cent of the total project cost leaving only a small portion to be met by government budgetary allocation. The AsDB also provides local cost financing; this occurs when the loan amount exceeds the foreign exchange cost of the project. The 80 per cent limit can be exceeded either to fund the entire foreign exchange cost or, in justifiable cases, to finance a higher share of local cost. In certain types of projects, especially for social infrastructure and rural development, where foreign exchange requirements are small, AsDB's local cost financing provides significant budgetary relief to LDCs. In addition, when borrowing countries have experienced domestic resource constraints, AsDB has provided special project implementation assistance to the countries concerned to enable completion of AsDB-financed projects. Loans of this type have been provided to Bangladesh and Western Samoa.

Volume of Lending to LDCs

The level of total AsDB lending to individual countries depends on a variety of factors such as population, economic size, absorptive capacity, historical funding levels, resource availability, past performance in implementing projects, and availability of projects suitable for AsDB assistance within the framework of AsDB's operational strategy for each country. Hence, fluctuations in actual level of loan commitments to individual countries are possible from year to year, as would be seen from Table 1.

Table 1: AsDF Lending to Individual LDCs
($ million)

LDC	1970-1979	1980-1984	1985-1989	1980-1989
Afghanistan	95.1	-	-	-
Bangladesh	469.1	1,129.0	1,172.2	2,301.1
Bhutan	-	12.4	19.2	31.6
Kiribati	1.8	0.6	1.6	2.2
Lao PDR	26.8	33.5	116.5	150.0
Maldives	-	3.4	12.5	15.9
Myanmar	233.5	255.8	35.0	290.8
Nepal	173.2	259.1	421.9	681.0
Vanuatu	-	2.1	8.8	10.9
Western Samoa	23.8	14.3	38.2	52.5
Total	1,023.3	1,710.1	1,825.9	3,536.0

Taking the LDCs as a group, the share of AsDF commitments to them in total AsDF lending has been around 50 per cent. It is noteworthy that during the period of the third replenishment of the AsDF (1983-1986), loan commitments to LDCs as a group increased by 24 per cent over those in the previous four year period. Even more significantly, such commitments are expected to jump by 40 per cent during the current AsDF replenishment period (1987-1990).

Transfer of Resources to LDCs

AsDB financing has resulted in significantly positive net transfers of resources to almost all LDC members, as shown in Table 2.

Table 2: Net Disbursements and Net Transfers of Resources to LDCs
($ million)

	Net Disbursements[a/]	Net Transfers[b/]
1970-1979	287.8	280.3
1980-1984	499.0	472.6
1985-1989	1,434.0	1,352.7
1980-1989	1,933.0	1,825.4

a/ Net disbursements defined as disbursements less principal repayments.
b/ Net transfer of resources defined as disbursements less principal repayments and service charges.

Lending to LDCs by Sector

Investment in productive activities is an essential determinant of economic growth. By financing investment, AsDB has made a significant contribution to economic growth. AsDB-assisted investment (in both quantitative and qualitative terms) has helped to create productive capacity and physical infrastructure (in agriculture, power, industry, transport and communication) and social infrastructure (schools, hospitals, water supply and sewerage). As an integral part of AsDB's financial assistance, it has also promoted the enhancement of the policy environment and institutional support systems through appropriate technical assistance. Together, these activities have helped in laying the basis for growth and development in LDCs.

The increased levels of AsDF commitments has allowed the LDCs to implement development projects and programs by complementing and supplementing aid provided by other

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donors and the domestic resources of the LDCs themselves. The AsDB's contribution to the development efforts of these countries during 1980-1989 was through financing with AsDF resources investments in agriculture and agro-industry (42.0 per cent), energy (25.1 per cent), transport and communications (20.5 per cent), social infrastructure (7.3 per cent), and industry and non-fuel minerals sector (4.3 per cent). (Table 3)

Table 3: AsDF Loan Approvals to LDCs, by Sector
($ million)

Sector	1970-1979		1980-1984		1985-1989		1980-1989	
	Amount	% Share	Amount	% Share	Amount	% Share	Amount	% Share
Agriculture and Agro-Industry	612.9	59.9	778.7	45.5	707.7	38.8	1,486.4	42.0
Energy	127.1	12.4	537.4	31.4	350.5	19.2	887.9	25.1
Industry and Non-fuel Minerals Incl. Development Banks	153.7	15.0	60.4	3.5	93.0	5.1	153.4	4.3
Transport and Communications	96.9	9.5	115.7	6.8	607.6	33.3	723.3	20.5
Social Infrastructure	32.7	3.2	203.1	11.9	53.7	2.9	256.8	7.3
Water Supply and Sanitation	28.5	2.8	39.0	2.3	14.4	0.8	53.4	1.5
Education	4.2	0.4	58.5	3.4	11.8	0.6	70.3	2.0
Health and Population	-	-	105.6	6.2	-	-	105.6	3.0
Urban Development	-	-	-	-	27.5	1.5	27.5	0.8
Multiproject	-	-	14.8	0.9	13.4	0.7	28.2	0.8
Total	1,023.3	100.0	1,710.1	100.0	1,825.9	100.0	3,536.0	100.0

It will be seen that, although agriculture and agro-industry remained the largest single sector, its share declined, as did those of industry and non-fuel minerals, and of social infrastructure. In comparison, the shares of energy and of transport and communications rose dramatically. It is expected that, in the future, lending for social infrastructure and for industry and non-fuel minerals would increase significantly. However, the AsDB has no predetermined sector allocations, the distribution of its lending across sectors being guided by AsDB's country strategies and country programming, and the availability of assistance from other sources.

Technical Assistance to LDCs

Technical assistance (TA) is an increasingly important feature of AsDB's operations in LDCs. Its main function is to facilitate the transfer of resources and technology to LDCs by helping them design, formulate and implement development projects. TA is also used to enhance LDCs' capability in formulating economic development strategies, policies and programs. The emphasis of TA is therefore on improving absorptive capacity and on institutional development.

AsDB provides TA to LDCs for (1) project preparation, (ii) project implementation, and (iii) advisory purposes.[1/] The volume of TA to LDCs is indicated in Table 4. A significant portion of the Bank's TA operations (especially TA for project preparation and advisory purposes) is grant-financed and is funded from the AsDB's Technical Assistance Special Fund, supplemented by co-financing from multilateral (mainly UNDP) and bilateral agencies (in particular, Japan Special Fund since 1988).

Table 4: TA to LDCs
($ million)

Type of TA	1970-1979	1980-1984	1985-1989	1980-1989
Project Preparation	17.7	19.6	19.8	39.4
Project Implementation	50.1	163.7	109.4	273.1
Advisory	15.5	27.0	50.0	77.0
Total	83.3	210.3	179.2	389.5

1/ In addition, AsDB also provides TA for regional activities, from which also the LDCs benefit.

Policy Dialogue

In view of the importance of a conducive policy environment, AsDB integrates policy considerations in all operations. A number of new initiatives have been undertaken to strengthen policy dialogue in response to the increasing need for managing structural change and improving the general environment in which projects function. AsDB's policy dialogue with borrowing governments is based on country strategy studies, annual country operational program papers and sector studies, and is carried out at different levels of aggregation (project, subsector, sector). The dialogue intensifies as lending progresses from project financing to sector loans and program loans. The last constitutes the most concrete operational expression of policy dialogue and involves policy-based lending in support of broad-based sector development programs. Over time, the LDC members of AsDB have initiated appropriate policy adjustments and AsDB has encouraged these efforts through financial and technical support.

Poverty Alleviation

AsDB has always been mindful of the need for poverty alleviation, and is now engaged in articulating a more comprehensive approach to enhance the effectiveness of such efforts. As before, AsDB would pay greater attention to poverty issues in the formulation and implementation of traditional projects. In addition, AsDB would give priority to providing financial and technical assistance for projects specifically designed to alleviate poverty (including projects in social infrastructure, and projects designed to increase the incomes of the poor through gainful employment creation, such as micro-credit schemes). The Bank would also support DMC programs and policies for poverty alleviation, such as through program loans in the health and education sectors. However, AsDB would seek to ensure that projects and programs benefitting the poor directly are economically viable and contribute to efficiency and growth.

Recent examples of the Bank's renewed efforts in poverty alleviation include a water supply sector project in Nepal and TAs for preparing projects dealing with non-farm employment creation for rural women, primary education, and health services and family planning in Bangladesh, and for small farmers' development in Nepal. Once these TAs are completed, investment projects would emerge for consideration by the Bank.

Environment Protection

AsDB has been in the forefront of efforts to integrate environmental consideration into economic development. For this purpose, AsDB works in close cooperation with environmental agencies and relevant government authorities in borrowing member countries. Environmental issues in each sector, and environmental dimensions of economic development in each member country, are included in AsDB's Operational Strategy for that country, with a view to identifying planning and management needs and designing programs and projects addressing environmental and natural resources issues. To assist in country programming, Environmental and Natural Resource Briefing Profiles are being prepared (and have been completed for Bangladesh, Myanmar and Nepal).

An environmental impact assessment is prepared for each project when appropriate and serves as the major vehicle for integrating environmental considerations into project planning. AsDB has also developed environmental review procedures that cover the entire project cycle. AsDB is also seeking to finance projects aimed at improving the natural environment directly, such as through reforestation projects. To this end, AsDB has provided TA for formulation of forestry master plans in several DMCs, including Bhutan, Lao PDR and Nepal. Other TA projects have included a study for revising environmental legislation (Vanuatu), formulating environmental quality standards (Bangladesh), strengthening environmental and natural resources planning and management (Nepal), environmental monitoring and pollution control (Bangladesh) and to the International Center of Integrated Mountain Development in Nepal. AsDB has also initiated a

regional TA on "Economic Policies for Sustainable Development: Implementing the Brundtland Commission's Recommendations in Selected DMCs".

Private Sector Development

AsDB's assistance for enhancing the role of the private sector has been mainly in the form of lines of credit to development finance institution (DFIs) and other similar institutions such as agricultural banks. Loans of this type have been provided, for example, to Bangladesh, Bhutan, Myanmar, Nepal, Vanuatu, and Western Samoa and have also helped to strengthen the DFIs concerned as a major institution-building effort. AsDB has also initiated direct assistance to the private sector by providing loans without government guarantee and equity investments, such as for textile units (Bangladesh and Nepal) and for a leasing company (Bangladesh).

AsDB's policy dialogue frequently focusses on private sector development. The aim is to ensure an appropriate policy environment for private sector activities, liberalization and deregulation of the financial and industrial sectors, strengthening institutional support and prioritizing the public investment program in ways to encourage private sector initiatives. All program loans stress the need for private sector promotion and the one to Western Samoa included a significant component for divestment of public enterprises.

Disaster Mitigation

In 1989 AsDB formalized a policy on rehabilitation assistance after disasters. The focus in on quick response to minimize disruption of essential services. In addition, AsDB has a special facility for disaster rehabilitation assistance for small countries (including Kiribati, Maldives, Vanuatu and Western Samoa). AsDB will also involve itself more closely in coordination of rehabilitation efforts at national and international levels. To this end, AsDB is currently implementing a regional TA to promote disaster prevention, mitigation and preparedness as an

integral part of development planning in its DMCs. The special focus of its study will include, among others, Bangladesh, Nepal and Western Samoa. AsDB attaches importance to its work on disaster mitigation in the context of the International Decade for Natural Disaster Reduction (IDNDR) and is in close touch with both UN Disaster Relief Organization and the Secretariat of IDNDR.

Aid Effectiveness

In order to enhance the effectiveness and efficiency of its assistance, AsDB continuously reviews operational policies, modalities, and procedures. With the adoption of country operational strategies, AsDB assistance is now more focused and is provided to areas where it can be utilized most effectively. The AsDB has also emphasized institutional upgrading of government agencies and parastatals through (i) introduction of financial performance criteria to help reduce dependence on national budgets and (ii) training in project administration and seminars on AsDB's procedures to improve disbursement performance and resource transfer. Whenever the nature and size of AsDB's operations in individual DMcs so warrants, resident offices are established and these now include Bangladesh, Nepal, and the South Pacific (serving, among others, Kiribati, Vanuatu and Western Samoa). AsDB has also developed effective mechanisms for coordination with other donors, both multilateral and bilateral.

Future Directions

In its operations in the 1990s, AsDB would continue to finance growth-oriented activities. While doing so, AsDB would as before give priority to social infrastructure, poverty alleviation, environmental protection and private sector promotion. The policy aspects of development would be emphasized at all times, especially since the response of governments to AsDB's policy dialogue has been generally positive. Important sectoral adjustment has been achieved in several LDCs, as

also institutional development and enhanced absorptive capacity. AsDB will continue to provide financial support for such efforts, as it has done already with an industrial sector program loan to Bangladesh, and agriculture sector program loans to Lao PDR, Nepal and Western Samoa. Finally, AsDB will stress institution building through TA operations.

AsDB looks forward with interest to the outcome of the Second U.N. Conference on LDCs and would endeavor to respond appropriately.